

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 SSO-00 INRE-00 NSCE-00
USIE-00 AID-05 CIAE-00 COME-00 FRB-03 INR-07
NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04
EPG-02 SIL-01 OMB-01 NSC-05 IO-13 SS-15 L-03
IGA-02 INT-05 /087 W
-----201938Z 107412 /47

O 201645Z MAY 77
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC IMMEDIATE 5414
INFO AMEMBASSY BRIDGETOWN
AMEMBASSY GEORGETOWN
AMEMBASSY NASSAU
AMEMBASSY PORT

C O N F I D E N T I A L KINGSTON 2589

ARA FOR HEAVNER; EB FOR DUNFORD; DEPT PASS AID FOR LION
AND LEIPZIGER; TREASURY FOR MARESCA.

E.O. 11652: GDS
TAGS: EFIN, EAID, IMF, JM
SUBJECT: IMF JAMAICA NEGOTIATIONS

1. EMBASSY ECONOFF MET MAY 19 WITH CARLOS SANSON, HEAD
OF IMF NEGOTIATING TEAM CURRENTLY IN KINGSTON. SANSON SAID
DISCUSSIONS WITH GOJ ARE STILL IN AN EXPLORATORY STAGE AND
THAT THE HARD NEGOTIATIONS HAVE NOT YET BEGUN. HE EX-
PRESSED VIEW THAT MAJOR AREAS OF DISCUSSION WILL BE
BUDGET, EXCHANGE RATE AND WAGE GUIDELINES.

A. BUDGET: SANSON IMPLIED IMF FINDS PRESENT GOJ
BUDGET UNACCEPTABLE. THE OBJECTIVE, HE SAID, SHOULD
BE TO DEVELOP A BUDGET THAT DOES NOT REQUIRE BANK OF
JAMAICA SUPPORT. EMBOFF NOTED THIS WOULD REQUIRE
MASSIVE AND PROBABLY POLITICALLY UNACCEPTABLE CUTS
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IN BUDGET AND INQUIRED IF IMF EXPECTS GOJ TO ACHIEVE
STABILIZED BUDGET IN A SINGLE YEAR. SANSON SAID THAT
THE DEGREE OF DEVIATION FROM A FULLY FINANCED BUDGET
(I.E., WITHOUT BOJ SUPPORT) WOULD HAVE TO DEPEND ON
THE AMOUNT OF FOREIGN ASSISTANCE. HE SAID IMF TEAM
IS CONCENTRATING ON DETERMINING JUST HOW MUCH OF A
CUT IS POLITICALLY FEASIBLE. HE NOTED THAT IT WILL

BE "VERY DIFFICULT" TO REACH AN AGREEMENT ON THIS QUESTION.

B. EXCHANGE RATE: SANSON SAID GOJ HAS GONE A LONG WAY TOWARD MEETING IMF CONCERNS ON EXCHANGE RATE ADJUSTMENTS. HE SAID ONLY REMAINING AREA OF CONCERN IS EXTENT TO WHICH GOJ IS WILLING TO SET UP A MECHANISM FOR CONTINUED ADJUSTMENTS. HE SAID NO FURTHER EXCHANGE RATE CHANGES ARE LIKELY TO TAKE PLACE OVER THE NEAR TERM. HE DID NOT SEEM DISCOURAGED BY THIS.

C. WAGE POLICY: SANSON SAID GOJ OFFICIALS HAVE CONVINCED TEAM THEY ARE SERIOUS IN THEIR DESIRE TO SET UP STRICT WAGE GUIDELINES. HE SAID THE TEAM HAS RECEIVED NO COMMITMENTS. HOWEVER, THERE APPEAR TO BE TWO PROPOSALS. ONE WOULD SIMPLY EXTEND THE CURRENT RESTRICTIVE GUIDELINES. ANOTHER WOULD TRY TO TIE WAGES TO AN INFLATION INDEX. SANSON WAS OF THE VIEW THE FORMER WOULD BE IMPLEMENTED WHEN THE CURRENT GUIDELINES EXPIRE JUNE 15. HE DID NOT FEEL THERE WOULD BE A PROBLEM ACHIEVING AGREEMENT WITH THE GOJ ON THIS ISSUE.

2. IN RESPONSE TO A QUESTION, SANSON SAID THE IMF NEGOTIATIONS CURRENTLY UNDERWAY IF CONCLUDED SUCCESSFULLY, WOULD MAKE IT POSSIBLE FOR THE GOJ TO DRAW THE FIRST TRANCHE (\$22 MILLION) OF THE IMF STANDBY FACILITY. HE SAID IT WAS DOUBTFUL THIS FIRST TRANCHE COULD BE MADE AVAILABLE UNTIL EARLY AUGUST. THE SECOND TRANCHE (ANOTHER \$22 MILLION) WOULD BE AVAILABLE LATER IN THE YEAR.
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3. SANSON SAID THESE TWO TRANCHES INCLUDE ALL THE MONEY THE IMF COULD PROVIDE UNDER THE FIRST YEAR OF A STABILIZATION PROGRAM. HE SAID AN EXTEND FUND FACILITY (EFF) DRAW COULD NOT BE MADE UNTIL THE SECOND YEAR OF THE PROGRAM. ASKED ABOUT THE WITTEVEEN FUND, SANSON SAID HE UNDERSTOOD DRAWINGS ON THIS FUND VERY LIKELY COULD NOT BE MADE UNTIL AFTER EFF HAD BEEN DRAWN DOWN. HE NOTED THAT THE WITTEVEEN FUND RULES ARE STILL BEING ESTABLISHED BUT HE FIRMLY REJECTED ANY THOUGHT THAT FUNDS UNDER IT COULD BE MADE AVAILABLE WITHIN A YEAR OR LESS.

4. SANSON SAID A CONSIDERATION FOR THE FUND IN NEGOTIATING WITH THE GOJ IS THE LEVEL OF OUTSIDE ASSISTANCE LIKELY TO BE PROVIDED BY OTHER DONORS. HE PRESSED FOR SOME INDICATION OF LIKELY LEVELS OF US ASSISTANCE. HE MADE REPEATED REFERENCE TO POSSIBLE DIRECT US TREASURY BOP SUPPORT FOR JAMAICA. EMBOFF NOTED THAT US DECISIONS HAD NOT YET BEEN MADE ON LEVELS OF ASSISTANCE

BUT MADE PERSONAL OBSERVATION THAT MASSIVE DIRECT TREASURY
BOP SUPPORT WOULD PROBABLY BE VERY DIFFICULT TO ARRANGE.

5. ON THE SHORT-TERM BOP CRISIS, SANSON SAID HE HAD NOT YET
BEEN SHOWN HOW GOJ COULD SURVIVE THE END OF JUNE. HE
NOTED BAUXITE LEVY OF \$64 MILLION DUE JULY 15. (HE
APPARENTLY DID NOT KNOW OF PREPAYMENT ARRANGEMENTS.)

6. EMBASSY COMMENT: SANSON AGREED TO MEET AGAIN WITH
EMBOFF MAY 26 BY WHICH TIME CLEARER PICTURE ON NEGOTIATION
STATUS MAY HAVE EMERGED. FOR NOW, IT WOULD APPEAR THE
SIZE OF THE BUDGET DEFICIT IS LIKELY TO PROVE THE MOST
FORMIDABLE OBSTACLE TO A SUCCESSFUL OUTCOME OF THE TALKS.
EMBASSY WOULD APPRECIATE DEPARTMENT'S VIEWS ON POSSIBLE
TIMING OF IMF FUNDING UNDER STANDBY, EFF AND WITTEVEEN FUND.
SANSON'S SCHEDULE AS RELATED PARAGRAPH 3 DIFFERS MARKEDLY
FROM SPEEDIER DRAW DOWNS DESCRIBED BY BOJ GOVERNOR ARTHUR
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BROWN.
DORRANCE

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Message Attributes

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